GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

STARRED QUESTION NO:175
ANSWERED ON:29.11.2002
INTEREST RATES ON CREDIT CARDS
SURESH RAMRAO JADHAV (PATIL)

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether the Government are aware of usurious rates being charged by the banks from Credit Card holders;

(b) if so, whether the Government propose to bring some kind of regulatory guidelines for the benefits of Credit Card holders;

(c) if so, the details thereof;

(d) if not, the reasons therefor; and

(e) the corrective steps taken/proposed to be taken by the Government in this regard ?

Answer

THE MINISTER OF FINANCE AND COMPANY AFFAIRS (SHRI JASWANT SINGH)

(a) to (e) : A Statement is placed on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO(e) OF THE LOKSABHA STARRED QUESTION NO. 175 ADMITTED FOR ORAL REPLY ON 29TH NOVEMBER, 2002 REGARDING `INTEREST RATES ON CREDIT CARDS`,TABLED BY SHRI SURESH RAMRAO JADHAV, M.P.

(a) to (e) :- Reserve Bank of India (RBI) has reported that since interest rates have beenderegulated, banks are free to determine their own rates on credit cards. At present, interest rates charged by banks vary from 24% to 36% per annum. The reasons for the high charges are because Credit Card business is highly capital intensive. It involvescapital expenditure for the infrastructure i.e. on-line computer systems, call centres (customer service centers), Electronic Data CaptureMachines (EDCMs) for cashdispensation and Point of Sales (POS) terminals. These are on-going investmentexpenditure, risk involved in credit card usage is undefined as the credit card dues are clean in nature without any security/collateral.

Further, in the case of credit cards, there is also fraud risk arising out of stolen/ altered credit cards. Recovery of outstanding dues on credit cards is very difficult, time consuming and costly.

Banks make an estimate of costs depending upon the volume, technology adopted, facilities offered etc., for fixing the service charges.

RBI has advised Indian Banks`Association to examine the issue and bring about some uniform approach especially in regard to financial charges, service charges, rate of interest in the background of general reduction in interest rates. The issue is being examined by them in consultation with their member banks.